

OUDTSHOORN Municipality



Annual Budget/Begroting 2015/16 – 2017/18

Medium Term Revenue and
Expenditure Framework

Medium Termyn Inkomste- en
Uitgaweraamwerk

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Glossary

Adjustments budget - Prescribed in Section 28 of the MFMA. The formal manner in which a municipality can revise its budget during the year.

Budget - The financial plan of the Municipality.

Budget-related Policy - Policy of a municipality affecting the budget or affected by the budget, such as the tariff policy, rates policy and credit control and debt collection policy.

Capital expenditure - Expenditure on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.

Cash flow statement - A statement showing when actual cash is to be received and spent by the Municipality. Cash payments do not always correspond with budgeted expenditure frameworks. For example, when an invoice is received by the Municipality, it is regarded as expenditure in the month, even it is not paid within the same period.

DORA - Distribution of Revenue Act. Annual legislation containing the total allocations by national government to provincial and local governments.

Equitable share - A general allocation paid to municipalities. It is mainly aimed at rendering assistance with free basic services.

Fruitless and wasteful expenditure - Expenditure done in vain and that could have been avoided if reasonable care was exercised.

GFS - Government Finance Statistics. An internationally recognised classification system making a type by type comparison between municipalities.

Grants - Money received from Provincial or National Government and other municipalities.

GRAP - Generally Recognised Accounting Practice. The new standard for municipal accounting.

IDP - Integrated Development Plan. The main strategic planning document of the Municipality.

KPI's - Key Performance Indicators. Measurement of service outputs and/or outputs.

MFMA - The Municipal Financial Management Act - No. 53 of 2003. The main legislation applicable to municipal financial management.

MTREF - Medium term Revenue and Expenditure Framework. A Medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budgetary allocations. Also includes details of the financial position of the preceding and current year.

Nett Assets - Nett assets are the residual interest in the assets of the entity after all its liabilities have been deducted. This means that the nett assets of the municipality equal the "nett welfare" of the municipality, after all assets had been sold/ recovered and all liabilities had been paid. Transactions that do not fall under the description of Revenue or Expenditure, such as increase in the value of Property, Plant and Equipment, where no in- or outflow of resources occurs, are recorded under Nett Assets.

Operational expenditure - Expenditure on the day-to-day expenses of the Municipality, such as salaries and wages.

Property rates - Local authority rates based on the assessed value of a property. In order to calculate the rates payable, the assessed value is multiplied by the rate in the rand.

SDBIP - Service Delivery and Budget Implementation Plan. A detailed plan consisting of quarterly performance targets and monthly budget estimates.

Strategic Objectives - The main priorities of the Municipality as set out in the IDP. Budgeted expenditure must contribute to the achievement of the strategic objectives.

Unauthorised expenditure - In general, expenditure without, or in excess of an approved budget.

Virement - A budget transfer.

Vote - One of the main segments of a budget.

PART 1 - ANNUAL BUDGET

Section 1 - Mayoral Report

In terms of section 16 (2) of the Municipal Financial Management Act (Act 56 of 2003), it is my privilege to submit the 2014/2015 Medium term Revenue and Expenditure Framework (MTREF) to Council. Section 24 of the MFMA, further states that the municipal Council must at least 30 days before the start of the budget year, consider approval of the annual budget.

As this budget constitutes the proposed financial plan for the next 3 years, it impacts on the community as a whole and it is thus extremely important to consult the community with a view to accept joint ownership and joint responsibility for the welfare of the municipality's financial affairs.

We will embark on a full community participation process to obtain the input of the community on the Annual Budget. Community meetings will be held in all wards and the input obtained from these meetings will be considered when we table the final budget in Council.

Council's strategic objectives of service delivery include the continuation of the acceptable level of services, as well as improvement in those areas still lacking. The mission statement of the municipality as contained in the IDP document states "To provide a better service, improve lives of people, eradicate extreme poverty and create a conducive environment for sustainable economic and social development.

The tourism industry is currently the main economic activity in Oudtshoorn, and we therefore need to fulfil our responsibility to maintain and cherish our tourism facilities and to support tourism activities as they play a vital role in job creation and job security. Council also acknowledges its immense responsibility towards not only our community needs, but also the strategically important role fulfilled by Oudtshoorn as a tourist destination in the region as well as the country as a whole. It is thus crucial to maintain our infrastructure as a top tourism destination and to attempt to attract more tourists in an extremely competitive market.

Council is in the process of developing a vision 2030 strategy which aims to establish and/or strengthen Greater Oudtshoorn in the following principle focal areas:

- A knowledge economic town, offering opportunities for training and skills development,
- A tourist economic town, offering a range of attractions from the environment to entertainment
- An infrastructure economic town, offering a full range of services and economic opportunities, notably in disadvantaged areas

- A social economic town which advances good governance and social development
- An industrial economic town in which various industries can expand
- An arts and culture economic town creating economic and social opportunities through the arts, heritage and sport.

To achieve the above, a balancing act is required between the set objectives and available financial resources, while taking into consideration the effect of tariff adjustments on the community as a whole, and the poor in particular. In addition, we have not escaped the downturn in the economy, which has had a considerable influence in Oudtshoorn, resulting in an increase in the number of registered indigent households. The continuous high annual tariff increases announced by ESKOM, is a huge challenge for local authorities as well as the community, as we have no control over this. These increases impact negatively on the input costs of the municipality and have a ripple effect on expenditure which makes the achievement of the service delivery objectives so much more difficult and a greater challenge. The challenge is further to achieve more with less and in so doing increase the municipality's productivity level.

Taking all of the above into consideration, I submit to you the following estimated expenditure summarised as follows:

Objective	Original 2015/2016 R'000	Original 2016/17 R'000	Original 2017/18 R'000
CAPITAL BUDGET	60 928	57 450	83 777
OPERATIONAL BUDGET	517 872	548 168	562 220
TOTAL	578 800	605 618	645 997

In achieving the above, provision was made for the following:

- Salary increases of 5.4% in the absence of a collective wage agreement.
- Annual increase in Councillor Remuneration of 5.4%.
- An increase of 14.24 % in Eskom's bulk purchase price for electricity.
- Interest on external loans to finance capital expenditure.
- Increase in the costs of subsidies due to the increasing number of indigent households.
- Compulsory statutory provision for depreciation of assets and bad debt, and sufficient GRAP provision for post-employment medical contributions and long service awards.

Notwithstanding fiscal parameters as prescribed and set by National Treasury the municipality had impose higher than inflation tariff increases in order to balance the budget .

Tariff increases are inevitable to balance the budget as set out above and the proposed tariff adjustments are as follows:

Property rates	7.0%
Refuse removal	8.5%
Sewerage	7.5%
Water units	7.25%
Electricity	12.69%
Other Diverse Tariffs (average)	6.0%

It is necessary to increase tariffs in order for the municipality to be in a position to expand and improve service delivery. The municipality is not in a position to keep tariff increases within the inflation target mainly because of above inflation increases in its input costs. The cost of electricity, labour and fuel all increase more than the inflation target. The growth in the revenue base of the municipality is limited due to challenges experience with economic growth within the Greater Oudtshoorn municipal area.

In order to improve affordability of municipal services for the poorest of the poor the basic charge for indigent households has been kept at R0.00.

It should be noted that a new general valuation roll will be implemented with effect 1 July 2017, and for the 2015/2016 financial year the current property roll is still being implemented.

This may result in some property owners paying less and others more for property rates depending on the growth in the value of their properties.

The municipality implemented inclining block tariffs for electricity with effect 1 July 2012, however a new proposal has been submitted to NERSA for a single block tariff with basic and Amp linked tariff structures. This budget has been drafted under this new tariff structure. This is a requirement of the National Electricity Regulator of SA.

A new time of usage tariff has also been introduced to encourage efficient usage from the consumers during time of high demand.

The purpose of this tariff structure is to encourage consumers to reduce their electricity consumption to reduce the risk of national electricity outages and all municipalities are forced to implement this. It works on the principle that the lower electricity consumption the lower the tariff per unit. Households with low electricity consumption will benefit from the new tariff structure. The increase of the electricity tariff will be an average of 12.20% (as prescribed by NERSA) although varying rates have been proposed between the various classes of consumers the average remains at 12.20%.

Basic service delivery

National, Provincial, District and local priorities for service delivery must be aligned and this is to a large degree achieved through the Integrated Development Plan process whereby communities give input in respect of service needs and which are then incorporated into the IDP. The different spheres of government then allocate resources to these requirements, but I must re-iterate that this is only possible to the extent that resources are available.

Our infrastructure development and maintenance objectives are to render services at acceptable levels to all, and for this purpose the 2015/2016 budget provides for infrastructure projects totalling R60,928 million.

A lot already been done to get service delivery to acceptable levels, we however still strive for excellence in this area. This budget aims to address service delivery requirements within our financial means. This budget also addresses the financial viability of the municipality in so much that it is cash funded. This will lead to the improvement of the liquidity of the municipality.

I thank our community for their inputs in the IDP and budget process, my fellow councillors for their continued hard work and support, as well as the Municipal Manager and his staff for their efforts.

ALDM.G.APRIL

EXECUTIVE MAYOR

Section 2 - Budget Tabling

MTREF 2015/2016

The 2015/2016 Annual Budget is hereby tabled before council as required by Section 16(1) of the MFMA. Once the budget has been tabled, the further public consultation process will commence.

BUDGET AND SUPPORTING DOCUMENTS

- [a]. That the annual Annual Budget of Oudtshoorn Municipality for the 2015/2016 financial year; and indicative for the two projected years 2016/17 and 2017/18, as contained in the annexures in Section 4.
- [b]. That property rates indicated in Annexure A be instituted for the 2015/2016 budget year.

Section 3 - Executive Summary

Introduction

The annual operating - and capital budget of Oudtshoorn Municipality for the financial year 2015/2016 and the 2 indicative years 2016/17 and 2017/18 are hereby represented as prescribed in among others:

- MFMA (Act 56 of 2003)
- The Distribution of Revenue Act, 2011 and Provincial Budget announcements
- Budget & Reporting Regulations 393 of 2009
- Sections 215 & 216 of the Constitution
- The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003
- Councils budget related policies

This is a GRAP compliant budget of the municipality .We endeavoured to comply with all legislative prescripts in particular the MFMA and the Municipal Budget & Reporting Regulations.

EFFECT OF THE ANNUAL BUDGET

The projected estimates for the MTREF are as follows: (R 000)

Operating Budget

Type	Original 2015/16 R (000)	Original 2016/17 R (000)	Original 2017/18 R (000)
Revenue	523 204	555 491	573 329
Expenditure	517 872	548 168	562 220
Surplus/(Deficit)	5 332	7 323	11 109

Capital budget

The projected funding of the capital budget is as follows: (R 000)

Objective	Original	Original	Original
	2015/2016 R'000	2016/17 R'000	2017/18 R'000
Infrastructure assets	R 21 138	R 21 835	R 22 878
Community assets	R 34 100	R 32 445	R 58 434
Heritage assets	R 4 000	R 2 750	R 1 965
Other Assets	R 1 690	R 420	R 500
TOTAL	R 60 928	R 57 450	R 83 777

Tariff increases are inevitable to ensure the budget is adequately funded to delivery sustainable basic services to the greater Oudtshoorn Community. The proposed main tariff adjustments are as follows:

Property rates	7.0%
Refuse removal	8.5%
Sewerage	7.5%
Water units	7.25%
Electricity	12.69%
Other Diverse Tariffs (average)	6.0%

It is inevitable to increase tariffs in order for the municipality to be in a position to expand and improve service delivery. Oudtshoorn municipality's revenue base has not grown much over the past year, which presents a challenge to the municipality. The above inflation increase in bulk purchases, fuel prices as well as other increases in the input costs of the municipality makes it impossible for us to stay within the inflation target set by National treasury.

Strict financial discipline and budget control is necessary to ensure the financial sustainability of the municipality. By strict enforcement and execution of the credit control policy, together with an understanding of

the prevailing economic climate, a balance will be achieved in collecting money that is due to the municipality.

The priorities identified during the IDP process can only be funded within the financial means and the affordability levels of the community. The Municipality's budget must be viewed in the context of the policy and financial priorities of the National, Provincial and district authorities. Basically, the government spheres are partners in fulfilling the service delivery challenges experienced in Oudtshoorn. It is therefore essential that the other government spheres support the municipality by direct allocation of resources and subsidies to enable the municipality to maintain and achieve the long-term capital needs of the community.

The National Context

South Africa has achieved considerable success in achieving macro-economic stability; but the economy is still struggling under the high levels of unemployment and poverty.

The table below indicates the government grants payable to Oudtshoorn Municipality as determined in the Division of Revenue Act (DORA) for the 2015/2016 MTEF period;

LOCAL GOVERNMENT MTEF ALLOCATIONS: 2015/16 - 2017/18				
OUDTSHOORN MUNICIPALITY	LOCAL	2015/16 R thousands	2016/17 R thousands	2017/18 R thousands
Equitable share and related		R 49 828	R 52 586	R 55 474
Equitable share: Council Remuneration Support		R 4 545	R 4 752	R 4 963
Municipal infrastructure grant		R 21 138	R 21 835	R 22 878
Integrated national electrification programme (municipal) grant		R 6 000	R 5 000	R 3 000
Local government financial management grant		R 1 450	R 1 475	R 1 550
Municipal systems improvements grant		R 930	R 957	R 1 033
Expanded public works programme integrated grant for municipalities		R 1 405	R -	R -

Water Services Operating Subsidy Grant	R -	R -	R 4 000
Energy efficiency and demand side management grant	R 3 000	R 3 000	R 4 000
Regional bulk infrastructure grant	R 20 000	R 20 195	R 42 399
Integrated electrification (Eskom) grant national programme	R 51	R 1 809	R 1 900
National Total	R 108 347	R 111 609	R 141 197
	R -	R -	R -
Maintenance and Construction of Transport Infrastructure	R 96	R -	R -
Library Services: Conditional Grant	R 4 222	R 4 306	R 4 564
Human Development (Beneficiaries) Settlements Grant	R 50 270	R 43 850	R 12 000
Community Workers (CDW) Development Operational Support Grant	R 72	R 76	R 80
Provincial Total	R 54 660	R 48 232	R 16 644
TOTAL GRANT FUNDING	R 163 007	R 159 841	R 157 841

National Treasury annually issues a circular in which they inform municipalities on the budget parameters within which municipalities must compile their budgets. Included in the equitable share contributions are special contributions for Councillor Remuneration as well as ward committees.

National Treasury annually issues a circular in which they inform municipalities on the budget parameters within which municipalities must

work when drafting their budgets. Based on the circular the Consumer Price Index (CPI) projection for 2015/2016, 2016/17 and 2017/18 is 4.38%, 5.9 % and 5.6 % respectively.

These growth parameters have been considered during the tariff determinations but due to other factors, such as increases in input costs the municipality unfortunately had to increase tariffs above the current inflation rate and CPI projections.

The major data and assumptions used during the drafting of the budget are as follows:

Increase in Employee-related costs	Cost of living adjustment - 4.4%
External Borrowings for capital projects	R0
Average rate of payment by debtors	95%
Effective electricity price increase	12.20%

Basic services are supplied to all the towns within the municipal boundaries, and continued efforts are being made to expand services to the rural area.

CONCLUSION

With numerous budget constraints confronting the municipality it is important that strict financial discipline and budget control be maintained during the next financial year. By strict enforcement and execution of the credit control policy, together with an understanding of the prevailing economic climate the municipality must ensure that it reach the budgeted revenue targets. The priorities identified during the IDP process can only be funded within the financial means and the affordability levels of the community.

The Municipality's budget must be viewed in the context of the policy and financial priorities of the National, Provincial and district authorities. Basically, the government spheres are partners in fulfilling the service delivery challenges experienced in Oudtshoorn. It is therefore essential that the other government spheres support the municipality by direct allocation of resources and subsidies to enable the municipality to maintain and achieve the long-term capital needs of the community.

To improve the level of cash and cash reserves over the MTREF period Council has to implement measure to reduce expenditure and ensure that expenditure stays within budget.

Robust debt collection strategies are currently being implemented by the Municipality to ensure an improved cash flow for the budget period as well as for future years. This becomes specifically crucial, given that ESKOM intends on instilling strict measures towards local government.

RECOMMENDATION:

1. That the Annual Budget of Oudtshoorn Municipality for the 2015/2016 financial year; and indicative for the two projected years 2016/17 and 2017/18, as contained in the annexures in Section 4, be approved.
2. That property rates indicated in Annexure A be instituted for the 2015/2016 budget year.
3. That tariffs and levies indicated in Annexure A be approved for the 2015/2016 budget year.
4. That the measurable performance objectives for revenue from each source in Section 7 for the 2015/2016 budget year be approved.
5. That the measurable performance objectives for each vote as indicated for the 2015/2016 budget year be approved.
6. That the Council notes the performance indicators submitted with the budget for subsequent approval by the Executive Mayor as set out in Section 7.
7. That Council notes and approves all budget related policies as set out in Section 8.

Section 4 – Budget tables

The following budget tables can be found in Annexure B:

Table A1 - Budget Summary

Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table A4 - Budgeted Financial Performance (revenue and expenditure)

Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding

Table A5A - Budgeted Capital Expenditure by vote, standard classification and funding

Table A6 - Budgeted Financial Position

Table A7 - Budgeted Cash Flows

Table A8 - Cash backed reserves/accumulated surplus reconciliation

Table A9 - Asset Management

Table A10 - Basic service delivery measurement

PART 2 - SUPPORTING DOCUMENTATION

Section 5 - Overview of annual budget process

Budget process overview

Political overview of the budget process

Section 53 of the MFMA stipulates that the Mayor should exercise general political guidance over the budgeting process and must direct the drafting of the budget.

Schedule of Key Deadlines in respect of the budget process [MFMA section 21(1)(b)]

The Act provides that the formal budget process must commence with the tabling by the Mayor in Council of a schedule setting out the key budget deadlines. This was compiled for tabling in Council at the end of August 2009.

Process followed to integrate the revision of the IDP and drafting of the budget

The budgeting process was integrated with the IDP during the IDP revision mechanism. The outcome of the consultation upon the IDP revision is taken into consideration in the budgeting process.

Process for tabling of the budget before Council for consultation

A statutory period of consultation follows the tabling of the budget before Council in April 2014. Meetings with the local community shall be advertised in the local press after tabling of the Annual Budget.

The Executive Mayor shall consider the outcomes of these consultation meetings and a report in which the reactions are set out shall be tabled at the same meeting where the budget is to be tabled for final approval.

Process for approval of the budget

The budget must be approved by Council by 31 May.

Process and media used to provide information on the budget to the community

All budget documentation, the MTREF, as well as tariffs and budget related policies, were made available at Council libraries and offices for perusal. It was also made available on Council's website.

Advertisements were placed informing the public about the availability of these documents and the schedules for the public hearings on the IDP. Budget shall be published in all local papers and be put up at municipal offices and libraries.

Budget process 2015/2016

The budget process in Oudtshoorn did not comply with the requirements of the MFMA. This was mainly due to political instability.

The schedule of key deadlines was compiled for tabling before Council by the Mayor before the end of August 2014, was not adopted in time due to the inability of Council to have a meeting in time.

The Annual Budget will be considered by Council on 29 May 2015. The Municipality's budget was once again drafted on a 3-year basis. It takes the National and Provincial 3-year allocations to the Municipality into account. It is necessary to plan and budget on a 3-year basis in order to take account of resource restrictions as well as capacity constraints in respect of service delivery. The MFMA requires that municipalities draft 3-year budgets to ensure more thorough financial planning and to make provision for seamless service delivery.

As was the case last year, however, both capital and operating revenue and expenditure figures in the outer years are indicators of need or desire and in some cases hope, rather than actual figures.

The municipality will set out measurable performance objectives to link the financial inputs of the budget with service delivery on the ground. This will be done in the form of quarterly service targets and monthly financial targets contained in the Service Delivery and Budget Implementation Plan (SDBIP). This must be agreed upon by the Mayor within 28 days after agreement on the final budget and forms the basis for the Municipality's monitoring during the year.

Section 6 - Overview of alignment of the annual budget with the Integrated Development Plan

The Integrated Development Plan is aimed at addressing service delivery needs on a continuous basis by identifying new needs or areas of improvement. It is however also a well-known fact that the needs far exceed the available resources, and financial resources in particular.

The alignment of the budget with the objectives set out in the IDP is as follows:

Operating budget

Objective	2015/2016 R'000	2016/17 R'000	2017/18 R'000
Basic services and infrastructure	354 159	383 717	401 987
Local Economic Development	64 298	64 599	71 380
Financial Viability	72 915	71 262	75 900
Sound governance and community participation	31 249	30 149	5 622
TOTAL	522 622	549 728	554 890

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From the above, we can deduce that 70% of the operating budget funds basic service delivery, with 12% funding local economic development. The smaller percentages spent on Financial Viability and Sound Governance and public participation are however not a reflection on the less importance of these two performance areas.

The ratio of the budget allocation are in line with the national norms.

Description	2015/2016	2016/17	2017/18
Employee Costs to OPEX	32,95%	32,70%	32,71%
Council Remuneration to OPEX	2,01%	1,99%	1,99%
Repairs & Maintenance to OPEX	5,34%	5,28%	5,41%

The national norms for Employee costs to total Operational Expenditure (OPEX) budget is 35%, and Oudtshoorn Municipality is at 32% and will remain at flat at this level for the MTREF. This is primarily due to the existing vacancies in a number of senior level posts.

The plans are for the Municipality to review its current organisational structure and once that is done, a proper and accurate staff complement costing and budgeting will be done.

Capital Budget:

Objective	Original	Original	Original
	2015/2016	2016/17	2017/18
	R'000	R'000	R'000

Infrastructure assets	R	21 138	R	21 835	R	22 878
Community assets	R	34 100	R	32 445	R	58 434
Heritage assets	R	4 000	R	2 750	R	1 965
Other Assets	R	1 690	R	420	R	500
TOTAL	R	60 928	R	57 450	R	83 777

The emphasis of the capital budget will be on rendering basic services and promoting sound governance and community participation.

Section 7 - Measurable performance objectives and indicators

Measurable performance objectives and indicators to be included in the SDBIP must be determined for the next year:-

Key financial indicators and ratios:

- Debt cover ratio (Total operating revenue, minus grants and subsidies, divided by debtors)
- Services debt to revenue ratio (Total outstanding services debt, divided by revenue for services received)
- Cost cover ratio (cash equivalents, divided by monthly fixed operating cost)

Measurable performance objectives for:

- Revenue for each budget vote
- Revenue for each source
- Operating and capital expenditure for each vote
- When developing these measurable performance objectives, the following needs to be taken into consideration -
- The municipality's Integrated Development Plan (IDP)
- Economic development initiatives that facilitate job creation, economic growth, poverty alleviation
- Provision of basic services

Measurable performance objectives for rendering free basic services

The measurable performance objectives for the provision of free basic services in respect of property rates, water, sanitation, waste management and electricity must provide details of -

- The amount in rand value of each of the free basic services
- The level of service that is delivered free
- The number of households to receive each of the free basic services
- The total budgeted cost of provision of each of the free basic services
- The total budgeted revenue lost by providing each of the free basic services

Section 8 - Overview of budget-related policy

Note that the complete policy documents are not included in this budget documentation. It is however available for perusal at Council's head office in Oudtshoorn, as well as on the Internet at www.oudtmun.gov.za This Section offers a general overview of the budget policy framework and sets out the amended policy to be approved by Council resolution.

Name of policy	Type	Date of adoption by Council (if done already)	Purpose/ Basic areas covered by policy	Summary of changes	Responsible Manager
REVENUE-RELATED					
Tariff	Unchanged	May 2008	Set criteria for fixing of services tariffs	None.	CFO
Property rates	Unchanged	May 2008	Set criteria for fixing property rates	None.	CFO
Credit control and Debt collection	Unchanged	Dec 2011	Principles and guidelines to be followed i.r.o. control of arrears debts	None	CFO
Indigent policy	Unchanged				
Bad Debt Write-off Policy					
BUDGET AND EXPENDITURE					
Cash Management and Investment	Unchanged	May 2013	Guideline of procedures to be followed when money is invested or borrowed	None	CFO
Supply Chain Management	Unchanged	Dec 2011	Dictate procedures for the procurement of goods and services	None.	CFO
Funding and Reserve Policy	Unchanged	March 2011	Set guidelines for budget	See policy	CFO

Budget Process Policy	Unchanged	March 2012	Set guidelines for budget process	See Policy	CFO
NEW AND REVIEWED POLICIES					
Name of policy	Type	Date of adoption by Council (if done already)	Purpose/ Basic areas covered by policy	Summary of changes	Responsible Manager
Borrowing Policy	New	Draft - March 2015	Guideline of procedures to be followed when money is being borrowed	New	CFO
Supply Chain Management	New	Draft - March 2015	Dictate procedures for the procurement of goods and services	New	CFO
Petty Cash Policy	New	Draft - March 2015	Rules and regulations as well as procedures on petty cash purchases and management	New	CFO
Virement Policy	New	Draft - March 2015	Set guidelines for budget transfer of funds between votes	New	CFO
Outside Work and Declaration of Interest Policy	New	Draft - March 2015	Regulations the business and economic interest of employees	New	CFO Internal Auditor Risk Manager Municipal Manager
Grants-In-Aid Policy	New	Draft - March 2015	Regulates the granting of Municipal funds to outside individuals, and organisations	New	CFO Director: Corporate Services Council
Study-Aid Policy	New	Draft - March 2015	Regulates the provision of financial aid for academic development of	New	CFO Municipal Manager Director:

			employees		Corporate Services Manager: Human Resources
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Section 9 - Overview of budget assumptions

Budget assumptions

Budgets are drafted in uncertain conditions. In order to draft meaningful budgets, assumptions must be made about internal and external factors that may affect the budget. This Section offers a detailed summary of the assumptions used in drafting the budget.

External Factors:

There is no real growth in the municipal area, or in the number of households, which results in a stagnating growth factor. In reality the number of indigent households (earning < R3, 000 p.m.) has increased from 3750 households in 2008/9 to the current level of 6700 households.

Job opportunities are limited, and the National budget has identified job creation as a priority and suggested that municipal capital and maintenance projects should assist them in this by implementing labour-intensive projects within their financial means.

General inflation outlook and the impact thereof on municipal activities

General inflation (CPIX) is estimated at 5.6% for the 2015/2016 financial year. This naturally leads to expectations that municipal tariffs should increase by more or less the same percentage, which is impossible due to the increase in bulk electricity fees of 8.06% by ESKOM, and also the full implementation of GRAP requirements such as devaluation levies and non-current employee benefits and other provisions. Consequently this budget and the proposed tariff increase of 6%

Description	2015/16	2016/17	2017/18
General inflation	4.8	5.9	5.6

Interest rates for borrowing and investing funds

The following assumptions are built into the MTREF:

Description	2015/16	2016/17	2017/18
Average Interest Rate - Investments	6.48%	6.48%	6.48%

Property rates, tariffs, levies and time framework of revenue collection

The property rates, tariffs and levies for the 2015/2016 budget are included in the tariff list. The current general valuation roll was implemented on 1 July 2012.

The table below indicates the average percentage increases built into the MTREF for property rates, tariffs and levies;

Property rates	7.0%
Refuse removal	8.5%
Sewerage	7.5%
Water units	7.25%
Electricity	12.69%
Other Diverse Tariffs (average)	6.0%

In general terms the time framework of property rates, tariffs and levies is based on the following:

Property rates and annual charges	Annual and monthly accounts in July. Interim accounts during the year as required.
Consumer tariffs	Monthly accounts. Continuous prepaid meters. Seasonal variations.
Levies	Generally constant throughout the financial year with seasonal variations.

Growth or decrease in tax base of the municipality

The growth in the tax base is the main determining factor of the affordability of new infrastructure development. Long term financial modelling shows a resource shortage in the resources required for infrastructure development over the next 15 years. As mentioned earlier, the tax base however shows a stagnating trend with little growth. Should this trend continue, it would result in significant pressure on future rates and tariffs increases.

The limited tax base and the increasing needs coupled with capital deficits will require prudent and extremely responsible financial planning for the future and the challenge of creating and furthering a safe and attractive environment with relatively affordable tariffs to attract possible investors.

The following assumptions concerning future growth were made in the MTREF:

Description	2015/2016	2016/17	2017/18
Growth in tax base - Property rates	1.4%	4%	3.2%
Consumer levies (%)	1.4%	4%	3.2%

Collection rates for each revenue source and client type

The average collection rate for the period 1 July 2014 to 31 December 2014 was 94, 7 %.The Municipality has a fair yet strict credit control policy in place and a good record of debt collection. Furthermore its policy on indigent support and social rebates means that many households that would normally struggle to pay their accounts receive free or subsidised basic services, which exempts them from the burden of municipal debt.

Despite this, there would always be an element of the total accounts amount that will not be recoverable. The Municipality is similar to any other business in this respect. Sufficient provision must be made for any bad debt in the budget based on assumptions on collection rates.

The following assumptions were made in the MTREF for bad debt and collection rates of rates and tariffs.

Description	2015/2016	2016/17	2017/18
Provision for bad and doubtful debt	0	0	0
Assumption for collection rate (services levies)	95%	95%	95%
Assumption for collection rate (property rates)	95%	95%	95%

Price fluctuations on specific items

Bulk purchases from ESKOM:

Budget item	2015/2016	2016/17	2017/18
Eskom	14.24%	14.24%	14.24%
Fuel prices	8.57%	8.57%	8.57%
Other input costs	6-10%	6-10%	6-10%

Average salary increases

The MTREF includes the following average percentage increases for salaries (Councillor allowance increase subject to determination by COGTA):

Description	2015/2016	2016/17	2017/18
Councillors	5.4%	5.25%	5.25%
Senior Managers	5.4%	5.25%	5.25%
Administrative, professional, technical, clerical staff & manual labourers	5.4%	5.25%	5.25%
Medical fund contributions	5.4%	5.25%	5.25%

Industrial relations climate, reorganisation and capacity building

The ability of the Municipality to deliver quality services depends on its staff and the capacity to deliver services to the Oudtshoorn population at a viable level. Failure by the Municipality to overcome the challenges facing Oudtshoorn shall ultimately result in the inability to deliver services.

The Municipality has made the following amounts available for training of staff over the MTREF period:

Changing demand characteristics (demand for services)

Oudtshoorn must respond to changing demand for services due to various possible reasons such as population migration, changing demographic profile technological changes and major infrastructural development. The high cost of electricity as forced consumers to reduce consumption by introducing energy saving measures.

The introduction of wireless technology in Oudtshoorn has made the internet accessible to considerably more people, which enable online interaction with the Municipality. This, together with the upgrading of the financial computer system (R-data's Promun system), enables electronic account payments and direct access to computer information.

The growth of formal housing in previous years affects the demand for services and poses a challenge to the Municipality on how services are delivered.

Trend in demand for free and subsidised basic services

Oudtshoorn's criteria for offering free and subsidised services are set out in the policy on indigent support. Government allocates revenue by means of the Division of Revenue Act (DORA) in the form of the Equitable Share Grant which has the primary aim of assisting municipalities with the cost of provision of free or subsidised services.

Impact of national, provincial and local policy

Oudtshoorn's Council has committed them to co-operate in partnership with national and provincial government spheres and district municipalities to meet the priority needs of its people. This requires compliance to the Intergovernmental Framework Act.

Funding compliance

The budget is cash-based, which is an indication of a "credible" budget. It is common cause that most municipalities encounter cash flow difficulties.

There is an increase in tariffs above the CPIX projection, mainly as a result of the electricity increases and other above inflation rate increases of input costs.

Section 10 - Overview of budget funding

Funding of the Budget

Section 18(1) of the MFMA determines that an annual budget can only be funded from:

- Realistically expected revenue to be collected;
- Cash-backed accumulated funds of preceding years' surpluses not earmarked for other purposes; and
- Borrowed funds, but only for the capital budget referred to in Section 17.

Full achievement of this requirement effectively entails that a Council 'balances' its budget by ensuring that the budgeted outflow balances with a combination of planned inflow.

A Credible Budget

A credible budget, among other things, is a budget, which:

- Only funds activities which are in line with the revised IDP and vice versa and which ensures that the IDP is realistically achievable while taking account of the financial restrictions of the municipality;
- Is achievable in respect of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are in line with current and previous performance and that are supported by documented evidence of future assumptions;
- Does not compromise the financial viability of the municipality (ensures that the financial position is contained within generally accepted prudent limits and that obligations can be met in the short, medium and long term); and
- Provides managers with suitable levels of delegation to enable them to fulfil their financial managerial responsibilities.

A budget sets out certain service delivery levels and accompanying financial implications. Consequently the community must realistically expect to receive these promised service levels and to understand the accompanying financial implications. High underspending due to under collection of revenue or poor planning is a clear example of a budget that is not credible and realistic.

Furthermore, budgets tabled as early as 90 days before the start of the budget year, must remain credible and fairly close to the final approved budget.

Fiscal Overview of Oudtshoorn Municipality

Oudtshoorn Municipality was unable to afford the salaries of qualified personnel to address and apply the needs and prescripts of GRAP. Qualified personnel to draft the statutory financial statements and reporting are a prerequisite of GRAP. In the past, Oudtshoorn has made use of external consultants to deliver the service, but has recently appointed a Chief Financial Officer as well as a Manager responsible for the drafting of the Financial Statements. Reliance on external service providers to assist with routine financial task will be phased out over the MTREF period.

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Long term financial planning

The financial position of the municipality is such that it cannot afford to take up external loans to finance capital expenditure. A long term loan is a method of ensuring that the principle of "the future consumers or beneficiaries of the assets financed by the loan also contribute to the future use or benefit arising from the assets" is applied in this long term financial strategy

As stated earlier in the report, it is the fourth time that a budget fully compliant with GRAP is drafted. Teething problems are still being experienced, but the basis for sound financial practices in accordance with GRAP is now in place.

Sources of funding

Interest earned from investments is recorded against the revenue and expenditure account to help fund the operating budget. The following tables sum up the budgeted interest over the MTREF:

Description	2015/2016	2016/17	2017/18
Investment interest	708	796	864

Contributions and donations

The Municipality may receive donations from developers to provide infrastructure and other works as part of the conditions for granting planning permission.

Selling of assets

The Municipality is revising its land and asset ownership as part of its longer term financial strategy. Major asset sales are therefore excluded from the

MTREF at this stage. We have however made provision for revenue to be realised from an auction that is planned for the near future as well as the alienating of two of councils properties.

Taking up Loans

The MFMA stipulates the conditions within which municipalities may incur short or long term debt.

The Act stipulates that short term debt may be used to meet immediate cash flow needs, but that it must be fully repaid within the financial year in which it was incurred. Long term debt can only be incurred for capital expenditure or refinancing of existing long term debt. Proposals to incur long term debt must follow a public consultation process.

The cash flow projections however show that it is not necessary to incur debt in the short term. The need for any short term loan is not projected over the MTREF period.

The Municipality does not intend taking up any new loans in the MTREF term

NO LOANS WILL BE TAKEN BY THE MUINICIPALITY DURING THE MTREF TERM.

Description	2015/2016	2016/17	2017/18
Long term loan	R0.00	R0.00	R0.00

Section 11 – Expenditure on grant allocations and grant programmes

Grant allocations

Details of each allocation appear in the schedule below:

LOCAL GOVERNMENT MTEF ALLOCATIONS: 2015/16 - 2017/18				
OUDTSHOORN MUNICIPALITY	LOCAL	2015/16 R thousands	2016/17 R thousands	2017/18 R thousands
Equitable share and related		R 49 828	R 52 586	R 55 474
Equitable share: Council Remuneration Support		R 4 545	R 4 752	R 4 963
Municipal infrastructure grant		R 21 138	R 21 835	R 22 878
Integrated national electrification programme (municipal) grant		R 6 000	R 5 000	R 3 000
Local government financial management grant		R 1 450	R 1 475	R 1 550
Municipal systems improvements grant		R 930	R 957	R 1 033
Expanded public works programme integrated grant for municipalities		R 1 405	R -	R -
Energy efficiency and demand side management grant		R 3 000	R 3 000	R 4 000
Regional bulk infrastructure grant		R 20 000	R 20 195	R 42 399
Integrated national electrification programme (Eskom) grant		R 51	R 1 809	R 1 900
National Total		R 108 347	R 111 609	R 137 197

	R -	R -	R -
Maintenance and Construction of Transport Infrastructure	R 96	R -	R -
Library Services: Conditional Grant	R 4 222	R 4 306	R 4 564
Human Settlements Development Grant (Beneficiaries)	R 50 270	R 43 850	R 12 000
Community Development Workers (CDW) Operational Support Grant	R 72	R 76	R 80
Provincial Total	R 54 660	R 48 232	R 16 644
TOTAL	R 163 007	R 159 841	R 153 841

Section 12 - Grants and allocations made by the Municipality

Allocations made by the Municipality

Allocations have been budgeted for:

Local Tourism Bureau	R 450 000
KKNK (tickets of indigents)	R 400 000

Any allocations made to an external body must comply with the requirements of Section 67 of the MFMA. This stipulates that before any funds may be transferred to an external organisation, the Municipal Manager as accounting officer must be satisfied that the organisation or body has the capacity to fulfil the agreement and has sufficient financial management and other systems in place.

Section 13 - Annual budgets and service delivery and budget implementation plan – internal departments

The disclosure of the annual budget and the service delivery and budget implementation plan (SDBIP) of internal departments must provide an executive summary of the SDBIP for each internal department of the municipality.

Where internal departments cover more than one vote, details must be provided for each vote.

Each departmental executive summary must at least include the following -

- A reference as to where the public may find the complete departmental SDBIP.
- A short description of the services rendered, the level and standard of service rendered to each client group may be included.
- A description of the capacity and structure of senior management.
- An explanation how the department's objectives and indicators align with the Integrated Development Plan (IDP).
- A description of the changes to the service levels and standards over the period covered in the medium term revenue and expenditure framework.
- Comments on the performance of the preceding year and the impact on future performance objectives.
- Summary of revenue per source, and operating and capital expenditure per type;
- A summary of any risks in achieving revenue projection, any expected major movements in revenue patterns and any planned alternative sources of revenue;
- A description of the most important features of expenditure, including pointing out discretionary and non-discretionary expenditure; and
- A short description of the departmental capital programme in the context of the overall capital programme of the municipality.

Section 14 - Annual budgets and service delivery agreements - municipal entities and other external mechanisms

ENTITIES

The municipality has no entities.

Other Service delivery mechanisms.

The municipality has a service delivery agreement with the Klein Karoo Rural Water Scheme (KKRWS) for the supply of water to farmers in the rural areas. Furthermore it administrates of the Congo Caves as an agent for the Western Cape Provincial Government.

A separate budget was drafted for the above of whom the KKRWS forms part of Oudtshoorn Municipality and the Congo Caves shown separately in Section 4.

Section 15 - Contracts with future budget implications

The municipality has no roll-over contracts with budget implications, except the service delivery agreement with KKWS for the supply of the water function in the rural area.

Section 16 - Legislative compliance status

Municipal Financial Management Act -No 56 of 2003

The MFMA took effect on 1 July 2004. The act modernises budget and financial management practices within the overall aim of maximising the capacity of municipalities to deliver services.

The MFMA covers all aspects of municipal finances, including budget, supply chain management and financial reporting.

The various sections of the Act are being phased in according to the designated financial management capacity of municipalities. Oudtshoorn municipality has been designated as a medium-capacity municipality.

The MFMA forms the basis of the municipal management reforms implemented by municipalities.

The MFMA and the budget

The following explains the budget process in terms of the requirements of the MFMA. It is based on National Treasury's manual on the MFMA.

The budget drafting process

The Mayor must direct the budget drafting process by means of a co-ordinated cycle of events commencing at least ten months before the start of each financial year.

Overview

The MFMA requires a Council to adopt a three-year capital and operating budget, at least 30 days before the start of the financial year, taking into account and aligning with the municipality's current and future development priorities and other finance-related policy (for example relating to the provision of free basic services).

These budgets must clearly set out the revenue per source and expenditure per vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any details

on loans, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may only be funded from reasonable estimates of revenue and cash-backed surplus funds of the previous year and loans (the latter for capital items only).

Budget drafting time schedule

The first step in the budget drafting process is to develop a time schedule of all key deadlines relating to the budget and to revise the Municipality's IDP and budget-related policy.

The budget drafting time schedule is compiled by senior management and tabled by the mayor for adoption by Council by 31 August (ten months before the start of the next budget year).

Drafting of the budget and revision of the IDP and policy

The Mayor must co-ordinate the budget drafting process and the revision of Council's IDP and budget-related policy with the assistance of the municipal manager.

The Mayor must ensure that the IDP overview constitutes an integral part of the budgeting process and that any changes to strategic priorities as contained in the IDP document, are based on realistic projections of revenue and expenditure. In developing the budget, management must take into account national and provincial budgets, the national fiscal and macro-economic policy and other applicable agreements or Acts of Parliament. The Mayor must consult the relevant District Council and all other local municipalities in that district as well as the applicable provincial treasury and the national treasury in drafting the budget, and must upon request provide certain information to National Treasury and other government departments.

The drafting process should ideally take place between August and November in order that draft consolidated three-year budget proposals, IDP amendments and policy could be made available during December and January. This allows time in January, February and March for preliminary consultation and discussion of the Annual Budget.

Tabling of the Annual Budget

The annual budget needs to be tabled and before council and adopted at least 30 days before the start of the financial year.

Publication of the Annual Budget

After submission to Council, the Municipal Manager must disclose the relevant budget documentation and submit it to the National Treasury and the relevant provincial treasury and any other state department as required. The approved budget needs to be published on the Municipality's website, Municipal offices and the public needs to be broadly informed of the approved budget.

Adoption of the annual budget

Council must consider the approval of the budget by 31 May and formally adopt the budget by no later than 30 June. This offers Council a 30-day window period to review the budget several times before final approval.

Should a Council fail to approve its budget during the first meeting, the budget, or an amended copy thereof, must be reconsidered within seven days and so on until it is eventually approved - before 1 July.

As soon as the budget is approved, the Municipal Manager must place the budget on the municipality's website within five days.

BUDGET IMPLEMENTATION

Implementation management – the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must submit a draft SDBIP and draft annual performance agreement for all pertinent senior personnel to the Mayor for approval within fourteen days after approval of the budget (no later than 14 July).

A SDBIP is a detailed plan for implementation of the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The Mayor must approve the draft SDBIP within 28 days after approval of the annual budget (no later than 28 July).

This plan must then be monitored by the Mayor and it must be regularly reported on to Council.

Managing the implementation process

The municipal manager is responsible for implementing the budget and must take steps to ensure that all expenditure occurs according to the budget and that revenue and expenditure is properly monitored.

Deviation from budget estimates

In general, Council may only incur expenditure if it is in accordance with the budget, within the limits of the amounts appropriated for each budget vote - and in the case of capital expenditure, only if Council has approved the project.

Expenditure incurred outside these parameters may be regarded as unauthorised, or in some cases irregular and fruitless or wasteful. Unauthorised expenditure must be reported and could result in criminal prosecution.

Review of budget estimates - the adjustments budget

It may on occasion be necessary for Council to consider a revision of its original budget due to material and considerable changes in revenue collections, expenditure patterns, or forecasts thereof for the remaining part of the financial year.

In such cases, a municipality may adopt an adjustments budget drafted by the municipal manager, submitted to the Mayor for consideration and tabled before Council for adoption.

The adjustments budget must contain certain prescribed information, it may not result in further increases in rates and tariffs and it must contain relevant justifications and supporting material when it is approved by Council.

Requirements of the MFMA in respect of the contents of annual budgets and supporting documentation

Section 17 of the MFMA stipulates that an annual budget must be in the prescribed format and sets out what is to be included in that format. In MFMA circular 48, National Treasury offers detailed guidance on the contents of budget documentation and the supporting schedules. Oudtshoorn Municipality has done its utmost to comply with the circular.

The table below shows how Oudtshoorn Municipality complies with the disclosure requirements of Section 17 of the MFMA.

Requirement	Disclosure in budget documentation
Schedule of reasonably expected revenue for the budget year from each source of revenue	SECTION 4 (annexure B)
Schedule indicating expenditure appropriations for the budget year under the various votes of	SECTION 4 (annexure B)

the Municipality	
Schedule setting out the indicative revenue per revenue source and projected expenditure per vote for the two financial years following on the Budget year	SECTION 4(annexure B)
Draft resolutions - (i) approval of the budget of the Municipality (ii) instituting any municipal rates and fixing any municipal tariffs as may be required for the budget year and (iii) approval of any other matters that may be prescribed.	Section 2
Measurable performance objectives for revenue for each source and for each budget vote, taking account of the Municipality's Integrated Development Plan.	Section 7
Proposed amendment to the Municipality's integrated development plan after the annual review of the IDP in terms of Section 34 of the Municipal Systems Act	
Any prescribed information on municipal entities under the exclusive or shared control of the Municipality	N.A.
Details of all prescribed new municipal entities that the Municipality wishes to establish or which the Municipality wishes to participate in	N.A.
Details of any proposed service delivery agreements, including material amendments to existing service delivery agreements	Section 14
Details of any proposed grants or allocations by the municipality to - (i) other municipalities (ii) any municipal entities and other external mechanisms that assist the municipality in performing its functions or powers (iii) any other state organs (iv) any organisations or bodies referred to in Section 67 (1) (bodies outside die Government)	Section 11
The proposed cost to the municipality for the budget year of the salaries, allowances and benefits of -	Section 9

(i) each political office-bearer of the Municipality (ii) councillors of the municipality (iii) the municipal manager, the chief financial officer, any senior manager of the municipality and any other official of the municipality with a remuneration package greater or equal to that of a senior manager	
The proposed cost in the budget year for a municipal entity under the exclusive or shared control of the Municipality for the salaries, allowances and benefits of - (i) each member of the entity's board and (ii) the chief executive officer and each senior manager of the entity	N.A.

Other Legislations

In addition to the MFMA, the following legislation also impacts on the Municipal budget;

The Division of Revenue Act, 2014 and Provincial Budget announcements

Three-year national allocation to local government is published annually according to municipality in the Distribution of Revenue Act. The Act imposes duties on municipalities additional to the requirements of the MFMA, specifically regarding reporting obligations.

Allocations to the Municipality from Provincial Government are announced in the Provincial budget and published.

Section 18 of the MFMA provides that annual budgets may only be funded from reasonably expected revenue to be collected. The provision in the budget for allocation of National and Provincial government must include the allocations announced in the DORA or the applicable Provincial Gazette.

The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act are closely linked with that of the MFMA. In particular, the following requirements must be considered in the budget process;

- Chapters 4 and 5 relate to community participation and the requirements for the Integrated Development Plan process.
- Chapter 8 relates to the requirements of producing a tariff policy.

Section 17 - Quality Certification by Municipal Manager

I, Mr R. Lottering, Acting Municipal Manager of Oudtshoorn Municipality, hereby certify that the Annual Budget and the supporting documents have been drafted in accordance with the Municipal Financial Management Act 56 of 2003 and the regulations issued under this act. The Annual budget is consistent with the Integrated Development Plan review of the Municipality.

MR RP Lottering

Acting Municipal Manager

Signature:

Date:

Annexure A - Property rates and tariffs 2015/2016

Property rates, tariffs and other levies

Kindly refer to the attached tariff schedule.

The average increases for 2015/2016 are:

Property rates	7.0%
Refuse removal	8.5%
Sewerage	7.5%
Water units	7.25%
Electricity	12.69%
Other Diverse Tariffs (average)	6.0%

All budget documents are available on the official website: www.oudtmun.gov.za

This includes the following:

- *Medium Term Revenue and Expenditure Framework 2015/2016 - 2017/18*
- *Schedule of tariffs & levies 2015/2016*
- *Budget-related decisions*

ANNEXURE B - Budget Schedule A1-A10